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Austria

Agricultural Situation

Situation of Austrian Agriculture in 1999/2000

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Report Highlights:
In 1999, agricultural gross value declined by one percent compared to 1998. In 2000, agricultural production is expected to decline slightly by volume but a slight price improvement should take place. Higher prices, tax improvement, and increased direct payments should result in a slight income rise in 2000.

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Situation of Austrian Agriculture in 1999/2000

Summary

In 1999, agricultural production in Austria increased by 1.5% compared to 1998. However, given the drop in prices, total agricultural gross value decreased to AS 62.4 billion (-1%). Agricultural income, including direct payments, fell 3% to AS 31.2 billion. Direct payments play a major role; their share of farm income accounted for 55.4%. As digressive compensation payments expired in 1998, direct payments bottomed in 1999. The number of farmers giving up agriculture dropped to 2.3%, the smallest decline for many years. With the gradual implementation of the CAP reform beginning in 2000, direct payments will rise. Higher direct payments, tax improvements and expected higher agricultural prices should result in some income rise in 2000.

A. Agricultural Situation in 1999

Production

According to the Economic Research Institute, the 1999 volume of agricultural production increased 1.5% compared to 1998. This rise was a consequence of very good results of plant production (+5.8%) due to favorable weather. All crops did well; however, oilseeds, fruits, and vegetable showed the highest growth. Livestock production was slightly below the 1998 level (-0.4%). Market sales expanded. However, this increase was more than offset by the sharp inventory reduction. The enlargement of the dairy quota stimulated milk delivery to dairies (+4.1%). Due to decreasing prices, egg production dropped 7.5%. Timber felling rate rose slightly (+0.5%).

Agricultural Prices

After the drop in 1998, agricultural prices and wood prices decreased again in 1999 (average -1.7%). Due to the large supplies, agricultural prices were down 2.1%, whereas wood prices stagnated since the end of 1997 at a high level. As usual, market developments differed from sector to sector.

Because of high production, producer prices of all important
crops (-2.4%) declined in 1999. Wine prices stagnated at a low level. Livestock prices decreased on average by 1.9%. Poultry and egg prices dropped 1%, cattle 3%, and slaughter hogs 7.3% despite some recovery in the second half of 1999. The dairy quota for 1999/2000 increased as part of the CAP reform. As a result, farmers were not as constrained by over production penalties and returns on milk production rose 2.4%.

Inputs

The price drop of agricultural products was nearly paralleled by input prices, which decreased 1.6% in 1999. Particularly feeds, pesticides, and fertilizer became cheaper. Energy prices stagnated and those of services rose slightly. Total input expenditures fell to 26.9 billion (-2.4%).

Gross Value

The price decline for agricultural products more than offset the growth by volume. Thus, the gross value in nominal terms decreased by 1% to AS 62.4 billion in 1999. In the plant production sector (AS 18.3 billion, which is the same as in 1998), smaller returns for potatoes, grains, and oilseeds were compensated by better results with sugar beets and horticultural products. Livestock production (AS 30.3 billion, down 2.4% from 1998) was again characterized by significant losses in hog production (gross value AS 7.1 billion, which is 14.6% below 1998) whereas the gross value of cattle production stagnated. Poultry and egg production (AS 2.7 billion, down 6.9% from 1998) declined further. The gross value in forestry (AS 13.6 billion) was slightly higher (+0.9%) than in 1998.

Direct Payments

Since EU accession, direct payments have been an essential part of farmer income. In 1999, the amount of these payments was AS 17.3 billion (-6.7%). The drop is a consequence of the expiration of declining compensation payments provided by the Austrian government after EU accession during a four year period. The amount for environmental programs (AS 7.8 billion) of the federal government and provincial governments were slightly higher than in 1998. The premiums for plant and livestock production (AS 6.4 billion), paid primarily by Brussels, correspond to the 1998 amount. This is also valid for equalization payments to farms in disadvantaged areas.

The total amount of direct payments of AS 17.3 billion corresponds to 36% (1998: 37%) of the agricultural and forestry gross value and indicates its high significance for farm income.

Due to the expiration of declining compensation payments in 1998, transfer payments bottomed out in 1999. With the gradual implementation of the CAP reform beginning in 2000, direct payments will rise.

Agricultural Income

Total 1999 agricultural income, including transfer payments, declined by 3% to AS 31.2 billion. This drop was expected due to the expiration of declining compensation payments and the crisis on the hog market. Large crops, high milk returns, good situation in the wood market, smaller expenditures in inputs, and lower investments offset the losses only partly. The year 1999 was the fourth in a row during which agricultural income declined.

As in the preceding years, the decrease in labor force dampened the consequences of lower total agricultural income. Nevertheless, income per farmer from agriculture and forestry was still slightly below that of 1998 (-0.7%).

Investments

After the sharp rise in 1996 and 1997, investments in 1998 and 1999 have declined. In 1999, investments for machines and equipment declined to AS 10.3 billion, which is 2.6% below 1998 and 12% below the peak year 1997. The hesitance to invest is primarily a consequence of declining income in recent years.

Rural Flight

In the first half of the nineties, the number of persons working in agriculture dropped 5 - 6% each year, but since 1996 rural flight has been declining. In 1999, the number of persons receiving their main income from agricultural works declined by 2.3% to around 146,000. The major share owners and their family members and only 18% are employees. The drop of 2.3% is the smallest decline since the mid eighties.

The share of persons working in agriculture and forestry declined to 4.2% in 1999 (-0.1 percent points).

B. Forecast for 2000

Production

After the record output in 1999, the production volume is expected to decline by around 2%. According to the agricultural research institute, production of all important crops will probably decline if weather conditions remain normal. Also in livestock production a slight minus is expected. The hog peak is over but the sharp population reduction should result in smaller market offer. In addition, production losses will probably take place in the cattle, poultry and egg sector. Milk supply should continue to rise and forestry production may remain on the high 1999 level due to continued satisfactory demand.

Prices

Lower supply will relieve markets and create space for price rises. Thus, after losses in recent years, the agricultural prices should recover by about 1.5%, according to economic research institute estimates. Except grain prices, which should decline due to reduced EU intervention price, all crop prices should rise. After the hog peak, the fast decreasing market offer will result in quickly improving prices. Rising prices are also expected for poultry and eggs. However, prices for cattle (due to reduction of intervention prices on July 1, 2000) and milk (higher deductions because of oversupply) may slacken somewhat. The wood market is gaining from the Europe wide booming construction sector. The economic research institute believes that the heavy wind breakage at the end of 1999 will not have a strong, long lasting impact on wood prices.

Direct Payments and Other Measures

In 2000, transfer payments will again constitute a large share of farmer income. Primarily due to increased direct payments, a consequence of the CAP reform, a trend change is expected. In addition, the new program for rural development allows for higher payments to farms in disadvantaged areas and for higher payments in the framework of environmental programs. The new CAP includes also new direct payments to forestry.
For CY 2000, total direct payments of AS 18.3 billion (+5.4%) are expected.

Due to a new regulation concerning taxes, which became effective beginning 2000, agriculture will save at least AS 1 billion.

According to the government program, additional measures for the benefit of agriculture are planned. The mineral oil tax for diesel shall be significantly lowered, equalization payments for farms in disadvantaged areas shall increased through a minimum amount, and the environmental program shall be expanded. However, due to the tense budget situation, the planned measures shall be implemented gradually.

Agricultural Income

If the aforementioned expectations come true, the gross value of agriculture and forestry should fall. However, higher direct payments and tax advantages will probably more than offset losses which should result in income rise. If there is no unusual weather and market development, a considerable income improvement can be expected. However, it will not be large enough to compensate for the losses occurred in the last four years.

C. Mid Term Trends

During a long period, individual income from agriculture and forestry developed parallel to that of other professions. However, since 1996 the individual agricultural income declined whereas that of other workers rose slowly. Thus, the disparity between agriculture and other sectors has increased. Compared to the EU as a whole, Austrian farm income suffered higher losses in the last four years than the EU average.

Government Plans

In the preamble to the agricultural program, the new government expressed in February 2000 its preference for the European model of agriculture which should form the basis of all negotiations. In addition, the government announced an active policy to strengthen rural areas.

With regard to the budget, the government intends to use fully all support mechanisms of Agenda 2000. Thus, all needed co-financing means shall be provided.

A central part of Agenda 2000 is the new "Program for Development of Rural Areas". Austria's proposals for this were forwarded to the Commission in September 1999. Main items of the "Austrian Program for Development of Rural Area" are the increase of funds for the environmental program and the support of farms in disadvantaged areas annually by AS 1 billion each. Brussels' approval is expected in late spring 2000.

In addition, the government intends to reduce the costs of diesel, fertilizer, pesticides, and veterinary pharmaceuticals to equalize input conditions with those of EU.

Implementation of the government plans will strengthen agriculture and rural areas, but at the expense of the national and EU budgets.